

HOUSE BUDGET COMMITTEE

Democratic Caucus

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Republicans Should Join Democrats In Supporting Extension of Unemployment Benefits

Dear Democratic Colleague:

The Labor Department reported last week that new claims for unemployment insurance remained above the bellwether level of 400,000 in the week ending May 10. Claims have now exceeded 400,000 per week for 13 consecutive weeks. The pace of job loss is beginning to compare with that seen in late 2001 and early 2002. Indeed, over the last three months, the economy has lost over half a million private sector jobs, and the recent high level of jobless claims suggests that trend may continue in the months ahead.

Jobless workers face a significant risk of long-term unemployment, given the worsening prospects of becoming re-employed. Indeed, unemployed workers' need for extended assistance is more severe now than it was when Congress first created the Temporary Extended Unemployment Compensation (TEUC) program in March 2002. But the Republican economic plans approved by the House of Representatives and the Senate allow the program to expire May 31 – just 12 days from now. By contrast, the Democratic jobs and growth plan presented two weeks ago continues the program for nine months and provides jobless workers with 26 weeks of extended benefits.

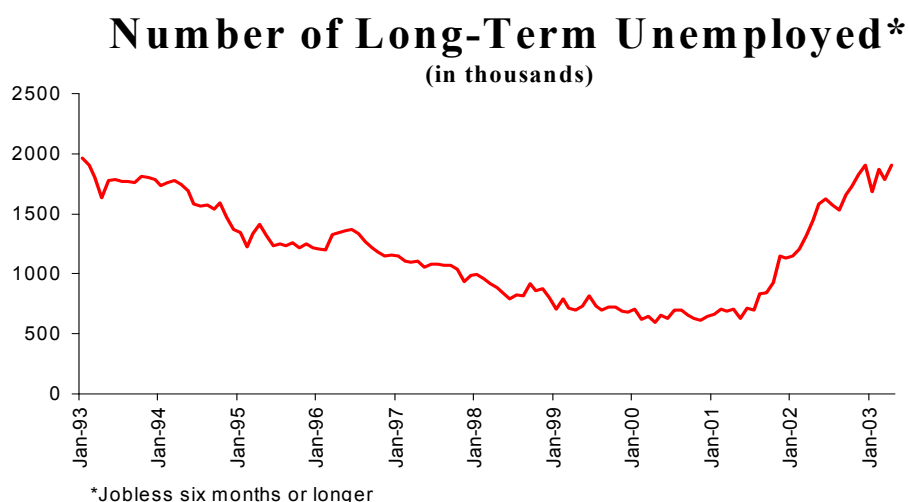
Senate Republican leaders last week belatedly suggested they would consider separate legislation to extend the program but not close any gaps in coverage. House Republican leaders, however, have remained silent, which suggests that extension of the TEUC program will not necessarily occur even if the Senate does act. Last winter, the TEUC program expired on December 28 because the President and House Republicans rejected Democratic efforts to extend the program with a compromise bill that had passed the Senate unanimously. As a result, millions of displaced workers spent the holiday season worrying about how to pay their bills. After repeated calls by Democrats in December to reinstate the program, Congress finally enacted an extension on January 8.

While Democrats are fighting to extend and improve unemployment benefits, some Republicans have even suggested that unemployment compensation encourages people to remain jobless. For instance, the Human Resources subcommittee of the House Committee on Ways and Means held a hearing April 10 to examine whether unemployment compensation causes people to remain unemployed longer. Devoting time and energy to such a question while jobs melt away seems misplaced. Federal Reserve Board Chairman Alan Greenspan has observed that in a period when the number of jobs is falling, concerns about unemployment compensation creating disincentives to work “no longer are valid and, hence, I’ve always argued that in periods like this the economic restraints on the unemployment insurance system almost surely ought to be eased to recognize the fact that people are unemployed because they couldn’t get a job, not because they don’t feel like working.”¹

The Jobs Situation is Getting Worse

Several economic indicators suggest that the job market is getting worse, not better:

- Since January 2001, 2.7 million private-sector jobs have disappeared from the American economy. In just the last three months, 538,000 private-sector jobs have evaporated. Meanwhile, the number of unemployed individuals reached 8.79 million in April, the highest level in nearly a decade.
- The number of long-term unemployed (jobless for six months or more) has nearly tripled since President Bush took office in 2001.



¹Joint Economic Committee, *Hearing on the Economic Outlook*, Washington, DC, November 13, 2002; p.

- By the end of August, when all extended benefits under the existing TEUC program will end, the Center on Budget and Policy Priorities estimates that 1.8 million workers will have exhausted their 13 weeks of extended benefits but remain unemployed. An additional 2.1 million workers will exhaust their regular unemployment benefits between June and November without successfully finding work.
- The percentage of people who exhaust their regular unemployment benefits without successfully securing new employment reached 43 percent in February – the highest rate on record (data go back to 1972) – and continued to hover near that rate in March. At the time TEUC was enacted in March 2002, this figure was 37 percent.

Republican Plans Leave Unemployed Workers Behind

The President's budget, the Republican budget conference agreement, and the House and Senate Republican economic plans all fail to provide help for the growing numbers of long-term unemployed workers. Under the Republican plans, the extended benefits program will be closed to workers who exhaust their regular unemployment benefits after May 31 and remain jobless.² Moreover, the Republican plans fail to recognize that millions of unemployed workers will need more than 13 weeks of extended benefits until the economy starts generating significant numbers of new jobs.

Without additional federal assistance, nearly four million jobless workers will be caught between a rock and a hard place during the next six months unless the economy improves immediately. They will have no paychecks and no unemployment benefits to fall back on as they continue looking for work. While Senate Republicans have belatedly indicated a willingness to extend the program beyond May 31, they have done so as an afterthought, and House Republicans have thus far remained silent on the issue. As more than a half a million private-sector jobs have disappeared in just the last three months, it has become clear that the TEUC program should be extended and improved. However, both House and Senate Republicans refused to address this issue in their economic plans.

The Republicans' reluctance to help long-term unemployed workers serves neither the economy nor the well-being of millions of jobless workers. Workers who exhaust their extended benefits but remain jobless must reduce their spending, with further negative consequences for an economy already languishing due to sluggish demand. Economic research has shown that unemployment compensation is one of the most effective forms of economic stimulus when the economy is soft, because it puts money in the pockets of individuals who are likely to go out and spend it right away. An analysis by *Economy.com* estimates that each dollar of unemployment benefits boosts the economy by \$1.73, whereas each dollar of the dividend tax cuts promoted by the President and Republicans generates only \$0.09 of economic activity.

²Individuals already receiving TEUC will continue to receive benefits after May 31 until they either find a job or exhaust the 13-week limit on TEUC benefits.

Democratic Jobs and Growth Plan Helps Long-Term Unemployed Workers

Democrats support improvements in the TEUC program to better assist unemployed workers. In previous recessions, Congress provided extended benefits until the numbers of long-term unemployed showed significant and steady decline. In the recession of the early 1990s, for example, Congress kept an extended benefits program in place for 27 months. In the early 1990s, Congress also provided more weeks of assistance – between 20 and 26 weeks of benefits for all workers, and 26 to 33 weeks of benefits for workers in states with high unemployment. This time, the TEUC program is scheduled to expire after 15 months, and it provides only 13 weeks of extended benefits to most workers. (TEUC provides 26 weeks of benefits in high unemployment states, but only a handful of states meet the trigger criteria.)

The Democratic jobs and growth plan provides targeted assistance to those who face long job searches. The plan continues the extended benefit program for another nine months, provides 26 weeks of benefits to workers, increases the level of benefits, and provides temporary aid to states to broaden coverage to low-wage earners and part-time workers. Under the Democratic plan, jobless workers who have already exhausted their initial 13 weeks of extended benefits receive an additional 13 weeks of benefits.

The Democratic jobs and growth plan builds on the policies included in the House Democratic alternative budget. Unfortunately, Republicans chose to vote instead for a budget that ignores the long-term unemployed and contains more than \$1 trillion in tax cuts that will do little to help the economy in the short term, while creating large structural deficits that weigh down the economy in the long run.

Sincerely,

/s/

John M. Spratt, Jr.

Ranking Democratic Member